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SUBJECT: Argentina: American Chamber Describes Investment  
Challenges, Opportunities to WHA DAS McMullen

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Summary  
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¶1. (SBU) As the American Chamber of Commerce in Argentina celebrates its ninetieth anniversary, member company reps noted to visiting WHA DAS McMullen their long and successful tenures in Argentina's historically volatile economic environment. U.S. companies remain broadly profitable, and a number are actively expanding their operations here, including Staples and Monsanto. However, company reps noted serious risks to their existing investments, including high inflation, energy restrictions, controversial taxation measures, the short-term focus of government policies, and lack of IPR law enforcement. Company reps commented they could be doing even better, investing more, and creating more value in the market if the attitude of the GOA toward the private sector was more positive and proactive. End Summary

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AmCham's 90th anniversary  
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¶2. (SBU) WHA DAS Christopher McMullen met on October 3 with representatives of the American Chamber of Commerce (AmCham) business community in Argentina. The meeting was hosted by AmCham CEO Alejandro Diaz, and included senior representatives of U.S. companies Dow, Esso, PriceWaterhouse Coopers, Eli Lilly, Johnson and Johnson, Merck Sharp & Dohme, Monsanto, Pfizer, Prudential, Staples and Teletex.

¶3. (SBU) With AmCham's 90 anniversary celebration already well underway, a number of companies at the table, including Dow and Esso and Monsanto, noted their long tenure in Argentina's historically volatile economic environment. Company reps commented to McMullen that they remain broadly profitable, but with serious risks to existing investments that include high inflation, energy restrictions, controversial taxation measures, dominant short-term focus of government policies, and lack of IPR law enforcement. Companies doing well noted that they could be doing even better, investing more, and creating more value in the market of the attitude of the GOA toward the private sector was more positive and proactive.

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IPR protection a major theme  
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¶4. (SBU) Pharmaceutical majors Johnson and Johnson, Merck, Monsanto, and Pfizer highlighted ongoing IPR concerns, including patent processing backlogs, the GoA's poor record on protecting data exclusivity, poor enforcement of existing IPR protection laws, and no support for the Patent Cooperation Treaty. While saying they appreciated the GoA's creation of a stand-alone Science and Technology Ministry, they underscored the new Science Minister's lack of political influence, the fact that the Health Minister does not care to discuss issues of interest to pharmaceutical companies,

and the strong influence of Argentina's domestic pharmaceutical lobby. Pharmaceutical company reps were unanimous in expressed their thanks to th Embassy for its ongoing support on IPR issues.

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Labor, tax and energy issues slimming company profits  
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15. (SBU) Company reps believed that official GoA inflation statistics are significantly under-reported and noted that strong unions demanding regular cost of living wage increases were narrowing their margins. Teletex, Staples and Prudential all cited labor issues as a constraint on continued high-growth. Staples, while still growing fast (40% this year), lamented that paying taxes according to the law put them at a disadvantage vis domestic competitors who do not fully comply with the tax code. Dow, which uses natural gas a primary feedstock for its chemical manufacturing, said it had become increasingly hard to maintain existing production levels, let alone expand, due to energy restrictions. During the austral winter months, Dow said its plastic production lines operated at only 40% of capacity.

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Will investors stay or look elsewhere for growth?  
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16. (SBU) Monsanto called Argentina its third largest market in world for seeds. Their government affairs rep stated that the company is working with the GoA on a new approach to increase royalties derived from seed production (currently only 10% of seeds used in Argentina are certified). Monsanto reported new investment of \$225 million (\$100 million this year; \$125 million over the next 3-4 years) to expand corn seed production in Argentina. However, when this US

agriculture giant looks strategically at the region, Brazil and Paraguay are winning the race for new headquarters investment approvals.

17. (SBU) Exxon-Mobil's Esso Argentina noted that, only six months ago, the company was considering leaving Argentina due to its frustration with an over-regulated energy market. However, thanks in part to US Embassy assistance, Esso is better able to deal with Argentina's challenging investment environment and will soon be talking to the GOA about the possibility of expanding its upstream investments in Neuquen province.

18. (U) This cable has been cleared by DAS McMullen

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